

VZCZCXRO5322
RR RUEHCHI RUEHDT RUEHHM
DE RUEHBD #0240/01 2210155
ZNY CCCCC ZZH
R 090155Z AUG 07
FM AMEMBASSY BANDAR SERI BEGAWAN
TO RUEHC/SECSTATE WASHDC 3910
INFO RUEHZS/ASSOCIATION OF SOUTHEAST ASIAN NATIONS
RUEHKO/AMEMBASSY TOKYO 0510

C O N F I D E N T I A L SECTION 01 OF 02 BANDAR SERI BEGAWAN 000240

SIPDIS

SIPDIS

DEPARTMENT PLEASE PASS TO USTR
DEPARTMENT FOR EAP/MTS, EAP/EP, AND EAP/RSP

E.O. 12958: DECL: 08/07/2017

TAGS: [ETRD](#) [PREL](#) [JA](#) [BX](#)

SUBJECT: JAPAN BIGGER WINNER IN TRADE DEAL WITH BRUNEI

REF: BANDAR SERI BEGAWAN 165

Classified By: DCM Justin Friedman, reasons 1.4 (b) & (d)

SUMMARY

[¶1.](#) (C) Japan appears to be the bigger winner in the bilateral Economic Partnership Agreement it signed with Brunei June 18.

Japan secured easing of tariffs on automobiles and other manufactured goods, while Brunei gained a dispute settlement dialogue should Japan seek to back out of long term energy purchase agreements. However, both sides were able to notch a public relations victory in support of freer bilateral trade and, they hope, gain momentum to complete a Japan-ASEAN FTA later this fall. At a briefing for the diplomatic community by the Japanese Embassy, DCM urged other missions to raise intellectual property protection in their trade dialogue with Brunei. END SUMMARY.

JBEP A Eases Open Brunei Market for Japan

[¶2.](#) (C) Officials at the Embassy of Japan in Brunei have briefed the diplomatic community on the Japan-Brunei Economic Partnership Agreement (JBEP A) signed during the visit of Sultan Hassanal Bolkiah to Tokyo June 18. Japanese DCM Masahi Kono asked that while the text of the agreement was available to the public (<http://www.mofa.go.jp/region/asia-paci/brunei/epa0706/index.html>), the content of this briefing be kept confidential.

[¶3.](#) (C) The key achievements of the JBEP A for Japan include a three year phased reduction in Brunei's import tariffs on cars and car parts from 20% down to zero. According to the embassy, approximately 70% of Japan's exports to Brunei are in this sector. Similarly, tariffs on machinery will be phased out over five years and on electronics over 10 years. The JBEP A also secures national treatment for foreign investors in both countries and calls on the two governments to "endeavor" to promote increased trade. The agreement mandates a review in three years, at which time Japanese Embassy officials hope that the scope of the agreement can be expanded.

Brunei May See Longer Term Payoff

[¶4.](#) (C) According to the Japanese Embassy officers, Brunei's major gain under the JBEP A was the creation of a dialogue mechanism, as well as a commitment to consultations should Japan seek to back out of long term energy purchase

agreements. They pointed out that ninety percent of Brunei's exports are oil and liquified natural gas (LNG), and that 72.6% of Brunei's LNG and 22% of it's crude oil exports are currently sold to Japan at zero tariff. Brunei originally became a major LNG exporter due to the long term purchase agreements it signed with Japanese firms in the 1970s, most notably with Tokyo Electric. Its current 10 year agreement for LNG exports to Japan expires in 2013 and negotiations on renewal must begin in 2009. Japanese embassy officials commented that the consultation mechanism under the JBEPa gives Brunei some assurance that it won't precipitously lose its key LNG market if prices should eventually fall from the high levels expected to prevail at the time of the renewal negotiations.

15. (C) Brunei also stands to benefit under the JBEPa if it is successful in its own economic diversification efforts. Tariffs on Brunei's exports to Japan of chemicals and gasoil products will be phased out over 10 years. (Note: the Japanese firm Mitsubishi is the major investor in Brunei's LNG plant, as well as in the new gas-driven methanol plant under development.) Some agricultural goods (primarily tropical fruits, but excluding rice) will have tariffs immediately eliminated, while other products will have tariffs phased out (e.g. timber & fiberboard over 7 years, citrus fruit juices over 15 years).

Slightly Better than WTO in Services

16. (C) While the JBEPa's investment provisions are built on a negative list (forestry, mining, and fisheries were excluded), trade in services was based on a positive list.

BANDAR SER 00000240 002 OF 002

Japanese Embassy officials argued that the JBEPa goes beyond WTO standards on trade in maritime and air services, telecom, and information technology. However, they conceded that the agreement does not go beyond the WTO on either banking or insurance. The agreement also calls for greater transparency in government procurement.

IPR at Least on the Table

17. (C) Japanese officials said that they pushed for more on IPR protection than they ultimately achieved in the JBEPa. Brunei agreed to a dialogue and the GoJ will start with an expert visit and seminar in the coming year. DCM used this opening to push all the represented missions to make IPR protection a central part of their economic dialogue with Brunei as we do in our Trade and Investment Council meetings (ref).

COMMENT: Momentum for Japan-ASEAN FTA?

18. (C) While this new bilateral agreement between Brunei and Japan seems to achieve only limited market openings, both sides needed this trade liberalization victory, however small. Brunei Permanent Secretary for Trade Dato Lim Jock Hoi told us on the margins of the US-Brunei TIC meeting (ref) that the Japan-ASEAN FTA negotiations were moving slowly, and Japanese DCM Kono echoed that the parties would conclude negotiations in November of this year, but that the FTA would not be ready for signature until later. The JBEPa is Japan's fifth such bilateral agreement with an ASEAN member. In signing this agreement, Japan strengthened its hand in its ASEAN FTA negotiations and Brunei joined the club of the ASEAN nations with a bilateral deal with Japan. Ultimately, the optics of the deal and the momentum it conveys to both sides in pursuing their own trade agendas may be of equal or greater value than the bilateral market opening aspects of

this agreement.
SKODON